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C O N F I D E N T I A L SECTION 1 OF 5 USNATO 2668

DEPARTMENT FOR S/P MR. LORD

E.O. 11652: XGDS-1

TAGS: PFOR, NATO

SUBJECT: CHAIRMAN'S REPORT ON APAG MEETING

TRANSMITTED BELOW IS TEXT OF DRAFT REPORT PREPARED BY APAG CHAIRMAN KASTL ON APRIL 14-17 MEETING AT ROYAUMONT. IN HIS COVER NOTE TRANSMITTING THE TEXT, KASTL NOTES THAT THE DRAFT IS BASED ON THE DISCUSSION AT ROYAUMONT AND THE WRITTEN SUBMISSIONS OF PARTICIPATING COUNTRIES. KASTL ALSO ASKED FOR NATIONAL COMMENTS ON THE DRAFT REPORT BY NO LATER THAN MAY 28.

BEGIN TEXT:

THE PROSPECTS FOR EAST/WEST EXCHANGES IN AN
INCREASINGLY INTERDEPENDENT WORLD

1. THE GROUP UNDERSTOOD EAST/WEST RELATIONS AS EMBRACING ECONOMIC RELATIONS OF ALL KINDS. THE GROUP EXAMINED THESE EXCHANGES FROM A BROAD ECONOMIC AND POLITICAL VIEWPOINT, AND AVOIDED TOO TECHNICAL AN ANALYSIS. PAPERS SUBMITTED FROM
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BELGIUM, CANADA, FRANCE, THE NETHERLANDS, TURKEY, THE UNITED KINGDOM AND THE UNITED STATES SERVED AS A STARTING POINT FOR MUCH OF THE DISCUSSION.

CONCLUSIONS

2. THE GROUP DREW THE FOLLOWING MAIN CONCLUSIONS FROM ITS DISCUSSIONS:

(A) THERE WERE NUMBERS OF FACTORS WORKING AGAINST RAPID EXPANSION OF EAST/WEST TRADE. THE INCREASE IN THE PRICES OF SOVIET EXPORTS OF PRIMARY PRODUCTS, PARTICULARLY OIL AND GAS, AND THE UP-VALUING OF GOLD HAD STRENGTHENED THE SOVIET UNION'S HARD CURRENCY POSITION. BUT, IN THE LONGER TERM, IT WAS QUESTIONABLE WHETHER THE SOVIET UNION COULD INCREASE THE VOLUME OF ITS EXPORTS. SOVIET INDUSTRIALISED GOODS WERE LIKELY TO REMAIN UNCOMPETITIVE IN WORLD MARKETS, AND SOVIET CAPACITY TO INCREASE PRIMARY EXPORTS WAS DOUBTFUL. THE IMMEDIATE ECONOMIC OUTLOOK FOR THE MAJORITY OF THE OTHER EASTERN EUROPEAN COUNTRIES WAS GLOOMY AS A RESULT OF THE STEEP RISE IN COSTS OF BOTH THEIR RAW MATERIAL AND MANUFACTURED IMPORTS, AND TRADE WITH THEM MIGHT EVEN SHOW SOME DECLINE.

(B) EAST AND WEST WERE NOT INTERDEPENDENT ECONOMICALLY IN ANY SENSE OF BEING ECONOMICALLY RELIANT UPON ONE ANOTHER. EAST/WEST TRADE WAS, HOWEVER, A HISTORIC AND NATURAL PHENOMENON, PARTICULARLY FOR THE COUNTRIES OF EUROPE, AND IN THAT SENSE THERE WAS A DEGREE OF INTERDEPENDENCE.

(C) ECONOMIC EXCHANGES COULD NOT OF THEMSELVES CREATE DETENTE. BUT THEY COULD CONTRIBUTE TO INCREASINGLY FAVOURABLE EAST/WEST CONDITIONS WHICH COULD BRING FURTHER PROGRESS IN OTHER AREAS OF EAST/WEST RELATIONS. THEY COULD HELP TO ESTABLISH, WITHIN THE SOVIET UNION AND THE OTHER EASTERN EUROPEAN COUNTRIES, INTEREST GROUPS WITH A STAKE IN CONTINUING THE PROCESS OF EAST/WEST DETENTE.

(D) IN DEVELOPING EAST/WEST EXCHANGES CARE NEEDED TO BE TAKEN WITH REGARD TO:

- THE POSSIBILITY OF ASSISTING DIRECTLY IN THE STRENGTHENING OF THE SOVIET MILITARY CAPACITY;

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- THE CREATION OF AN UNACCEPTABLE DEPENDENCE OF THE WEST UPON THE EAST, WHETHER IN THE FORM OF ECONOMIC DEPENDENCE WITH REGARD TO PARTICULAR PRODUCTS, OR A POLITICAL DEPENDENCE AS A RESULT OF CREATING DOMESTIC PRESSURE GROUPS IN THE WEST WITH AN OVERRIDING INTEREST IN EAST/WEST EXCHANGES;

- UNDUE ALLOCATION OF LIMITED RESOURCES TO THE PURSUIT OF INCREASED EAST/WEST EXCHANGES WHICH WERE MORE URGENTLY NEEDED FOR OTHER PURPOSES IN THE WEST, OR COULD BE BETTER EMPLOYED IN DEVELOPING THE NORTH/SOUTH RELATIONSHIP; IT WAS

IMPORTANT THAT THE WEST SHOULD HAVE CLEAR
PRIORITIES;

- THE DANGER OF UNDUE COMPETITION AMONGST WESTERN
COUNTRIES FOR TRADE WITH THE EAST THREATENING TO
ERODE WESTERN SOLIDARITY;

- THE TEMPTATION TO TRY TO MAKE EXCESSIVE USE OF
ECONOMIC LEVERAGE WITH THE EAST WHICH COULD BE
DESTABILISING AND MIGHT BACKLASH.

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(E) THE SOVIET UNION WAS NOT EXPECTED, IN THE IMMEDIATE
FUTURE, TO SEEK SUBSTANTIALLY GREATER PARTICIPATION IN
INTERNATIONAL ECONOMIC ORGANIZATIONS. IT MIGHT HOWEVER
TRY TO USE PARTICULAR ORGANIZATIONS WHERE IT SAW A
POSSIBILITY OF FURTHERING PARTICULAR SOVIET AIMS. IT
WOULD BE MORE LIKELY TO OPERATE REGIONALLY THAN
GLOBALLY, AND WOULD BE INTERESTED IN ORGANIZATIONS
WHERE THERE WAS A POSSIBILITY OF RESHAPING AND ADAPTING
THEM IN ACCORDANCE WITH SOVIET NEEDS AND IDEAS.

(F) THE WEST SHOULD CONTINUE TO PURSUE ITS OWN POLICIES TO
IMPROVE INTERNATIONAL ECONOMIC STRUCTURES AND ORGANIZA-
TIONS TO MEET ITS OWN URGENT REQUIREMENTS.

(G) ON ENCOURAGEMENT OR ACCEPTANCE OF SOVIET PARTICIPATION,
THE DILEMMA WAS BETWEEN THE AIM OF ENCOURAGING GREATER
SOVIET RESPONSIBILITY AND THE DANGER OF THE SOVIETS
SEEKING TO DAMAGE OR AMEND UNACCEPTABLY ORGANIZATIONS
OF WHICH THEY BECAME MEMBERS. THE BEST COURSE APPEARED
TO BE A PRAGMATIC CASE BY CASE APPROACH. IN CERTAIN

AREAS, SUCH AS WORLD FOOD PROBLEMS, SOVIET PARTICIPATION WAS CRITICAL. IN OTHER AREAS IT COULD WORK AGAINST WESTERN INTERESTS. EXCLUSION OF THE SOVIET UNION, CONFIDENTIAL

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WHERE THE SOVIET UNION SOUGHT MEMBERSHIP OF AN INTERNATIONAL BODY MIGHT HOWEVER BE POLITICALLY DIFFICULT.

(H) THE GENERAL APPROACH TO EAST/WEST EXCHANGES SHOULD BE FLEXIBLE, AND OF A KIND THAT DID NOT ASSIST THE SOVIET UNION IN ITS AIMS OF CONSOLIDATING ITS HOLD ON THE OTHER COUNTRIES OF EASTERN EUROPE, WHICH WISHED TO PROMOTE THEIR BILATERAL RELATIONS WITH THE WEST.

(I) IT WAS IMPORTANT TO MAINTAIN CONSULTATION ON EAST/WEST EXCHANGES. THE GREATER FLEXIBILITY OF WESTERN POLITICAL AND ECONOMIC SYSTEMS SHOULD PUT US AT AN ADVANTAGE IN THESE EXCHANGES, AND WE SHOULD NOT UNDERESTIMATE THE STRENGTH OF OUR POSITION. THE TECHNOLOGICAL GAP WAS A STRONG CARD IN WESTERN HANDS.

3. THE PARAGRAPHS WHICH FOLLOW GIVE A FULLER ACCOUNT OF THE DISCUSSION WHICH LAY BEHIND THE CONCLUSIONS SET OUT ABOVE. THE DISCUSSION FELL BROADLY INTO THREE PARTS; CONSIDERATION OF THE NATURE OF EAST/WEST EXCHANGES; EAST/WEST EXCHANGES AS A FACTOR IN DETENTE; AND THE PARTICULAR PROBLEM OF SOVIET AND OTHER EASTERN EUROPEAN PARTICIPATION IN MULTILATERAL ECONOMIC STRUCTURES AND ORGANIZATIONS.

THE NATURE OF EAST/WEST EXCHANGES

4. THE MAJOR ELEMENT IN EAST/WEST EXCHANGES WAS EAST/WEST TRADE, BUT THERE WAS ALSO AN ELEMENT OF EAST/WEST CO-OPERATION. A CLEAR DISTINCTION HAD TO BE MADE BETWEEN THE WEST'S EXCHANGES WITH, ON THE ONE HAND THE SOVIET UNION, AND ON THE OTHER, THE OTHER EASTERN EUROPEAN COUNTRIES. IN THE CASE OF THE SOVIET UNION THE BROAD PATTERN WAS ONE OF EXPORT OF FUELS, MINERALS AND RAW MATERIALS TO THE WEST IN RETURN FOR INDUSTRIALISED GOODS AND TECHNOLOGY. BUT IN YEARS OF BAD SOVIET HARVESTS, SOVIET GRAIN IMPORTS FROM THE WEST BECAME A MAJOR FACTOR. SINCE THE HARVESTS DEPENDED LARGELY ON THE SOVIET WEATHER, THE VARIATIONS IN THESE IMPORTS WAS UNPREDICTABLE. IN THE CASE OF EXCHANGES BETWEEN THE WEST AND THE OTHER COUNTRIES OF EASTERN EUROPE THE PATTERN VARIED WIDELY AS BETWEEN ONE EASTERN EUROPEAN COUNTRY AND ANOTHER. THE OTHER EASTERN EUROPEANS DID, HOWEVER, SHARE THE SOVIET UNION'S INTEREST IN THE IMPORT OF WESTERN INDUSTRIALISED GOODS AND TECHNOLOGY. CONFIDENTIAL

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TRIALISED GOODS AND TECHNOLOGY.

5. THE SCALE AND PROSPECTS FOR EAST/WEST EXCHANGES: IN VOLUME, EAST/WEST TRADE WAS SMALL, REPRESENTING ONLY SOME 3 PER CENT OF WORLD TRADE AS A WHOLE. SOVIET IMPORTS WERE LESS THAN 1 PER CENT OF TOTAL SOVIET GNP, AND THE IMPORTS OF NATO COUNTRIES FROM THE SOVIET UNION AND THE EASTERN EUROPEAN COUNTRIES TOGETHER WERE LESS THAN 0.8 PER CENT OF NATO GNP. NONETHELESS, AT THE MARGINS AND FOR INDIVIDUAL ENTERPRISES IN THE WEST, EAST/WEST TRADE COULD BE IMPORTANT.

6. THE PROSPECTS FOR GROWTH IN EAST/WEST TRADE WERE CONSIDERED UNCERTAIN. ON THE WESTERN SIDE, RECESSION COULD ADVERSELY AFFECT THE DEMAND FOR IMPORTS FROM THE EAST. HOWEVER, IT COULD ALSO CONSTITUTE A STIMULUS WHERE, FOR EXAMPLE, UNEMPLOYMENT PROBLEMS COULD BE EASED BY INCREASED EXPORTS TO THE EAST. ON THE OTHER SIDE, THE SOVIET UNION WOULD REMAIN ESSENTIALLY AN EXPORTER OF PRIMARY PRODUCTS. HER MANUFACTURED GOODS WERE LIKELY TO REMAIN INFERIOR AND UNCOMPETITIVE IN WORLD MARKETS. THE SOVIET UNION COULD NOT COUNT ON THE RECENT IMPROVEMENT IN ITS TERMS OF TRADE BEING REPEATED. FUTURE INCREASES IN HARD CURRENCY EARNINGS WOULD THEREFORE PROBABLY HAVE TO COME FROM INCREASES IN THE VOLUME OF PRIMARY PRODUCT EXPORTS. THE VIEW WAS EXPRESSED THAT SUCH AN INCREASE IN VOLUME MIGHT NOT BE MAINTAINED MUCH BEYOND 1980. THE EXPECTATIONS FOR CERTAIN DEVELOPMENTS, E.G. SOME OF THE SIBERIAN

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PROJECTS SEEMED TO HAVE BEEN EXAGGERATED. RECURRENT SOVIET REQUIREMENTS FOR GRAIN IMPORTS, WOULD CONTINUE TO BE A SIGNIFICANT FACTOR, SINCE THEY HAD AN IMMEDIATE IMPACT ON THE AMOUNT OF HARD CURRENCY AVAILABLE TO THE SOVIET UNION FOR OTHER IMPORTS. WESTERN WILLINGNESS TO EXTEND LONG-TERM EXPORT CREDITS AND

OTHER FINANCIAL FACILITIES COULD HELP THE SOVIET UNION TO AVOID SHARP FLUCTUATIONS IN HER PROCUREMENT OF IMPORTED INDUSTRIAL GOODS. WITH REGARD TO THE OTHER EASTERN EUROPEAN COUNTRIES, ALL BUT POLAND AND ROMANIA HAD BEEN HARD HIT BY THE INCREASE IN COST OF THEIR ENERGY IMPORTS FROM THE SOVIET UNION AND WORLD INFLATION GENERALLY. IN THEIR PRESENT SITUATION, IT WAS CONSIDERED QUESTIONABLE WHETHER THEY WOULD BE ABLE TO MAINTAIN THEIR TRADE WITH THE WEST EVEN AT PRESENT LEVELS. FOR BOTH THE SOVIET UNION AND THE REST OF EASTERN EUROPE, THE REMOVAL OF SOME WESTERN RESTRAINTS ON TRADE HAD ASSISTED THE EXPANSION OF EAST/WEST TRADE IN THE PAST. THIS FACTOR WOULD OPERATE TO A MUCH LESSER EXTENT IN THE FUTURE. ON THE OTHER HAND, REMOVAL OF EASTERN RESTRAINTS COULD STILL HAVE A POSITIVE EFFECT.

7. DEGREE OF INTERDEPENDENCE: GIVEN THE RELATIVELY SMALL VOLUME OF EAST/WEST TRADE, AND THE FACT THAT IN NO AREA WAS EITHER SIDE SERIOUSLY DEPENDENT UPON THE OTHER FOR SUPPLIES, CONFIDENTIAL

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BOTH BECAUSE OF ALTERNATIVE SOURCES AND ELASTICITIES IN DEMAND, THE EAST/WEST ECONOMIC RELATIONSHIP WAS CLEARLY NOT ONE OF "STRONG" INTERDEPENDENCE, NOR WAS IT LIKELY TO BECOME ONE. THUS, THERE WAS NO COMPARISON WITH THE INTERDEPENDENCE EXISTING BETWEEN THE INDUSTRIALISED COUNTRIES AND THE OIL PRODUCING COUNTRIES WHICH ENJOYED A MONOPOLY POSITION IN A COMMODITY ESSENTIAL TO THE WEST. IN ADDITION, THE ASYMMETRICAL SYSTEMS OF EAST AND WEST, WITH TIGHT STATE CONTROL ON THE ONE HAND AND LIBERAL FREE ENTERPRISE ON THE OTHER, WORKED AGAINST INTERDEPENDENCE. IN SO FAR, HOWEVER, AS EAST/WEST TRADE, PARTICULARLY IN EUROPE, WAS A NATURAL AND HISTORICAL PHENOMENON, IT COULD BE SAID THAT THERE WAS A DEGREE OF INTERDEPENDENCE. MOREOVER, THE MAINTENANCE OF EXCHANGES WITH THE WEST WAS PARTICULARLY IMPORTANT, BOTH POLITICALLY AND ECONOMICALLY, FOR THE EASTERN EUROPEAN COUNTRIES OUTSIDE THE SOVIET UNION.

EAST/WEST EXCHANGES AS A FACTOR IN DETENTE

8. THE SOVIET POSITION: ON THE SOVIET SIDE, POLITICAL CONSIDERATIONS OVERRODE ECONOMIC CONSIDERATIONS IN DETERMINING POLICY TOWARDS THE WEST. A MAIN PURPOSE OF THE SOVIET LEADERSHIP IN FOLLOWING A POLICY OF PROMOTING EAST/WEST EXCHANGES WAS TO OBTAIN FROM THE WEST THE TECHNOLOGICAL INPUT WHICH THEY HOPED WOULD REMEDY THE SHORTCOMINGS OF THE SOVIET ECONOMY, AND MAKE POSSIBLE HIGHER LEVELS OF GROWTH, WITHOUT RADICAL REFORM OF THE SYSTEM ITSELF. WHETHER MODERN WESTERN TECHNOLOGICAL AND MANAGERIAL METHODS COULD BE GRAFTED ON TO THE SOVIET ECONOMIC SYSTEM WAS NOT YET CLEAR; THERE WERE MANY EXAMPLES WHERE THE GRAFT HAD NOT TAKEN OR APPEARED NOT TO BE TAKING. IN THE EVENT OF TECHNOLOGICAL IMPORT FROM THE WEST NOT ACHIEVING THE RESULTS HOPED FOR, THE SOVIET LEADERSHIP WOULD HAVE THE CHOICE BETWEEN LOWER RATES OF GROWTH OR REFORM OF THEIR SYSTEM. IT SEEMED

PROBABLE THAT THEY WOULD OPT FOR THE FORMER.

9. THE SOVIET COMMITMENT TO INCREASED EAST/WEST EXCHANGES APPEARED TO BE DURABLE, THOUGH IT WOULD BE THEIR PURPOSE TO AVOID AN INDEFINITE TECHNOLOGICAL DEPENDENCE ON THE WEST. THE RESTRAINT SHOWN BY THE SOVIET LEADERSHIP IN NOT SEEKING TO EXPLOIT CURRENT WESTERN ECONOMIC DIFFICULTIES COULD BE INTERPRETED AS INDICATING A CONTINUING COMMITMENT TO THE PRO-CONFIDENTIAL

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MOTION OF EAST/WEST EXCHANGES. ON THE OTHER HAND, SINCE POLITICAL CONSIDERATIONS WERE FOR THEM OVERRIDING, THEY WOULD STRONGLY RESIST THE USE OF ECONOMIC LEVERAGE AGAINST THEM. THE EXPERIENCE OF THE US/SOVIET NEGOTIATIONS OVER THE US TRADE ACT HAD SHOWN THAT, IN PARTICULAR, THE SOVIET UNION WAS HIGHLY SENSITIVE TO ATTEMPTS TO SEEK INTERNAL CHANGE IN RETURN FOR ECONOMIC CONCESSIONS. IN AREAS OTHER THAN INTERNAL MATTERS, ECONOMIC BARGAINING COUNTERS MIGHT BE USED WITH GREATER PROSPECTS OF SUCCESS, BUT THEIR DEPLOYMENT CALLED FOR CONSIDERABLE DIPLOMACY. CONCESSIONS WERE MORE LIKELY TO BE WON BY AN INDIRECT APPROACH, THAN BY DIRECT BARGAINING OF ONE ITEM AGAINST ANOTHER. IT WAS NOT CONSIDERED THAT THE BREAK DOWN OF THE US/SOVIET TRADE NEGOTIATIONS HAD HAD SERIOUS LONG-TERM CONSEQUENCES. WHILE THE CIRCUMSTANCES MIGHT HAVE SERVED TO WARN THE SOVIET LEADERSHIP OF SOME OF THE POTENTIAL DANGERS FOR THEM OF TOO CLOSE ECONOMIC INVOLVEMENT WITH THE WEST, IT WAS LIKELY THAT THEY ALREADY HAD THESE CONSIDERATIONS WELL IN MIND. THE LIMITATION OF THE CREDIT FACILITIES HAD BEEN AN IMPORTANT FACTOR IN THE SOVIET DECISION TO WITHDRAW, AS WELL AS THE REFUSAL OF MOST-FAVoured-NATION TREATMENT.

10. THE WESTERN VIEWPOINT: THE DEVELOPING OF EAST/WEST EXCHANGES WAS SEEN IN THE WEST AS A DESIRABLE PHENOMENON. BUT CO-OPERATION COULD NOT BE CONFINED TO THE ECONOMIC, ANY MORE THAN TO THE POLITICAL SPHERE. PROGRESS IN NEGOTIATION OF THE MILITARY ASPECTS OF DETENTE REMAINS ESSENTIAL. MOREOVER, THE SOVIET UNION AND EASTERN EUROPEAN COUNTRIES MUST REALISE THAT IF DETENTE WAS TO ADVANCE, INTERNAL QUESTIONS WOULD ALSO INEVITABLY ENTER MORE AND MORE INTO THE DISCUSSION. ONE OF THE VIRTUES OF THE CSCE WAS THAT IT MADE THIS LINK CLEAR.

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11. ECONOMIC CO-OPERATION SHOULD BE USED TO CREATE AN INCREASINGLY FAVORABLE EAST/WEST CLIMATE IN WHICH PROGRESS IN OTHER AREAS COULD BECOME POSSIBLE. ECONOMIC LINKS COULD BE USED FOR LEVERAGE WITH THE EAST BUT, BECAUSE OF STRONG SOVIET SENSIBILITIES, THIS SHOULD BE DONE MODERATELY AND WITH MODERATE AIMS IN VIEW, IF IT WAS NOT TO PROVE COUNTER-PRODUCTIVE. EAST/WEST EXCHANGES COULD HELP TO ESTABLISH INTEREST GROUPS WITHIN THE SOVIET UNION AND THE OTHER EASTERN EUROPEAN COUNTRIES WITH STAKES IN THE CONTINUED DEVELOPMENT OF DETENTE. THE ACHIEVEMENT OF THIS COULD BE A STABILISING FACTOR IN EAST/WEST RELATIONS. THE POSSIBLE INTERNAL DESTABILISING INFLUENCE IN THE EASTERN WORLD OF EAST/WEST EXCHANGES COULD NOT, HOWEVER, BE ENTIRELY EXCLUDED. ECONOMIC DISSATISFACTION HAD IN THE PAST BEEN A MAJOR FACTOR IN UNREST IN EASTERN EUROPE, AND IN SO FAR AS VARIATIONS IN THE LEVEL OF EAST/WEST EXCHANGES MIGHT AFFECT THE INTERNAL ECONOMIC SITUATION IN EASTERN EUROPE, THIS COULD HAVE CONSEQUENCES FOR POLITICAL STABILITY THERE. AS ALSO COULD OVER-AMBITIOUS ATTEMPTS BY THE WEST TO USE ECONOMIC LEVERAGE AS EAST/WEST ECONOMIC EXCHANGES GREW. IT NEEDED TO BE BORNE IN MIND THAT THE EXISTENCE OF GROWING TRADE AND EXCHANGES GENERALLY DID NOT OF ITSELF IN ANY WAY GUARANTEE IMPROVED REALTIONS, AND IN SOME CIRCUMSTANCES
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COULD POSITIVELY INCREASE AREAS OF POTENTIAL FRICTION.

12. IT WAS ALSO NECESSARY TO KEEP IN MIND CERTAIN RISKS. THESE INCLUDED:

- THE RISK OF ECONOMIC EXCHANGES AND, IN PARTICULAR, THE TRANSFER OF TECHNOLOGY STRENGTHENING THE SOVIET MILITARY CAPACITY. IT COULD BE ARGUED, ON THE ONE HAND, THAT ECONOMIC RELATIONS WITH THE WEST ASSISTED THE SOVIET UNION TO MEET RISING DOMESTIC DEMANDS WITHOUT DIVERTING TOO MANY RESOURCES FROM DEFENCE. ON THE OTHER HAND, RELATIONS WITH THE WEST MIGHT SERVE TO STIMULATE SOVIET DOMESTIC DEMAND FOR HIGHER LIVING STANDARDS AND SO MAKE MORE DIFFICULT FOR THE SOVIET AUTHORITIES THE CONTINUED

EXPANSION OF THE DEFENCE BUDGET;

- THE RISK OF BRINGING ABOUT AN UNACCEPTABLE LEVEL OF WESTERN ECONOMIC DEPENDENCE ON THE EAST, THOUGH DIVERSIFICATION TOWARDS THE EAST FOR IMPORT OF SOME COMMODITIES COULD HAVE THE ADVANTAGE OF LESSENING EXISTING DEPENDENCE ON TRADITIONAL SUPPLIERS;

- THE ALLOCATION OF AN UNDUE PROPORTION OF RESOURCES TO EAST/WEST EXCHANGES NOT JUSTIFIED BY EITHER ECONOMIC OR POLITICAL RETURNS. WHEN DOMESTIC NEEDS, E.G. FOR THE DEVELOPMENT OF ALTERNATIVE ENERGY RESOURCES, WERE SO GREAT, AND WHEN THE NEEDS OF THE DEVELOPING WORLD WERE SO PRESSING, IT WAS PARTICULARLY IMPORTANT TO ENSURE THAT LIMITED RESOURCES WERE PUT TO THE BEST POSSIBLE USE.

- THE POTENTIAL RISKS OF GROWING EAST/WEST EXCHANGES CREATING INFLUENTIAL GROUPS WITHIN OUR OWN SOCIETIES WITH AN OVERRIDING INTEREST IN THE CONTINUATION OF THE PROCESS, POSSIBLY WITHOUT SUFFICIENT REGARD FOR OTHER CONSIDERATIONS, AS WELL AS THE DANGER OF GREATLY INCREASED OPPORTUNITIES FOR DIFFERENT TYPES OF SUBVERSION;

- THE DANGERS OF GROWING EAST/WEST EXCHANGES PROVOKING EXCESSIVE COMPETITION AMONG WESTERN COUNTRIES. ALREADY CONFIDENTIAL

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THERE WAS A HIGH LEVEL OF SUCH COMPETITION LEADING, IN MANY CASES, TO OFFERS TO THE SOVIET UNION AND OTHER EASTERN EUROPEAN COUNTRIES OF HIGHLY FAVORABLE TRADE TERMS OFTEN INVOLVING A SUBSTANTIAL DEGREE OF SUBSIDISATION. THIS PROCESS, IF ALLOWED TO GO FAR, COULD ERODE WESTERN SOLIDARITY.

13. IN SUM, IN REACHING DECISIONS ON DEVELOPING EAST/WEST EXCHANGES, IT WAS NECESSARY FOR THE WEST TO ASSESS BOTH THE POLITICAL AND ECONOMIC RETURN FROM THE "INVESTMENT" BEING MADE AND TO FORM A JUDGEMENT AS TO THE ADEQUACY OF THAT RETURN IN COMPARISON WITH THE RETURN FROM ALTERNATIVE ALLOCATIONS OF RESOURCES. THERE WAS A NEED TO ESTABLISH PRIORITIES.

THE SOVIET UNION AND OTHER EASTERN EUROPEANS IN REGARD TO MULTILATERAL ECONOMIC STRUCTURES AND ORGANIZATIONS

14. THE GROUP EXAMINED, AS A PARTICULAR PROBLEM, THE PROSPECTS FOR AND IMPLICATIONS OF INCREASED SOVIET AND OTHER EASTERN EUROPEAN INVOLVEMENT IN MULTILATERAL ECONOMIC, FINANCIAL AND COMMERCIAL ORGANIZATIONS.

15. THE SOVIET ATTITUDE: CONCERN TO DEMONSTRATE ITS

SUPER-POWER STATUS MIGHT ENCOURAGE THE SOVIET UNION TO SEEK TO INCREASE ITS PARTICIPATION IN INTERNATIONAL ORGANIZATIONS IN THE ECONOMIC SPHERE. ON THE OTHER HAND, THERE WERE OBJECTIONS OF AN IDEOLOGICAL CHARACTER TO SUCH PARTICIPATION, AS WELL AS THE SOVIET CONCERN WITH MAINTAINING TOTAL INDEPENDENCE OF ACTION. MOREOVER, TO JOIN EXISTING ORGANIZATIONS, IN THE FORMATION AND SHAPING OF WHICH THE SOVIET UNION HAD PLAYED NO PART, COULD WELL BE REGARDED BY THE SOVIETS AS INCOMPATIBLE WITH SUPER-POWER STATUS. THERE WERE IN ADDITION PRACTICAL DIFFICULTIES FOR THE SOVIET UNION (THOUGH NOT NECESSARILY IN ALL CASES INSUPERABLE) OF ADAPTING TO ORGANIZATIONS BASED ON THE PRINCIPLES AND NEEDS OF FREE ENTERPRISE AND FREE TRADE ECONOMIES, AND THE SOVIET UNION COULD WELL BE RELUCTANT TO MEET OBLIGATIONS TO PROVIDE INFORMATION WHICH MEMBERSHIP OF MOST MULTILATERAL ORGANIZATIONS WOULD INVOLVE.

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16. CERTAIN BROAD POLITICAL CONSIDERATIONS ALSO SEEMED TO WEIGH AGAINST THE SOVIET UNION WISHING TO JOIN MANY MULTILATERAL ECONOMIC ORGANIZATIONS. MEMBERSHIP OF BODIES LIKE THE WORLD BANK COULD RESULT IN GREATER PRESSURE ON THEM FROM THE THIRD WORLD FOR INCREASED AID. IN SOME COMMODITY ORGANIZATIONS THEY COULD BE PRESENTED WITH DIFFICULT POLITICAL DECISIONS, FOR EXAMPLE AS TO THEIR STANCE BETWEEN CONSUMERS AND PRODUCERS. SITUATIONS COULD ALSO ARISE IN WHICH CONSIDERATIONS OF EAST/WEST REALATIONS AND DETENTE CONFLICTED WITH OTHER INTERESTS AND THEIR RELATIONS WITH OTHER COUNTRIES.

17. FOR ALL THE ABOVE REASONS, IT SEEMED UNLIKELY THAT THE SOVIET UNION WOULD, IN THE NEAR FUTURE, SHOW ANY STRONG

INTEREST IN SEEKING GREATER PARTICIPATION IN MAJOR MULTILATERAL ORGANIZATIONS IN THE ECONOMIC AREA, AT LEAST IN THOSE OPERATING GLOBALLY. IT MIGHT, HOWEVER, BE MORE INTERESTED IN PROMOTING RELATIONS WITH REGIONAL ORGANIZATIONS. IT HAD ALREADY PARTICIPATED IN A CONSTRUCTIVE MANNER IN CERTAIN BODIES CONCERNED WITH THE REGULATION OF INTERNATIONAL TRADE IN PARTICULAR COMMODITIES, E.G. COCOA, COFFEE AND TIN.

18. IN THE SPECIAL CIRCUMSTANCES OF EUROPE, IN SEEKING
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NEGOTIATIONS WITH THE EEC, COMECON HAD BEEN THE DEMANDEUR. IN TAKING THIS COURSE, THE SOVIET UNION PROBABLY HAD A NUMBER OF CONSIDERATIONS IN MIND:

- ITS ASSESSMENT OF THE GROWING IMPORTANCE OF THE EEC;
- A WISH TO PRE-EMPT AND CONTROL INDIVIDUAL ACTION BY THE OTHER EASTERN EUROPEAN COUNTRIES;
- A DESIRE TO INCREASE THE PRESTIGE OF COMECON.

LONGER TERM SOVIET CONSIDERATIONS MIGHT ALSO INCLUDE THE GRADUAL STRENGTHENING OF THE STRUCTURE OF COMECON, REINFORCEMENT OF THE STATUS QUO IN EUROPE AND EVENTUAL FURTHERANCE OF THEIR OWN BRAND OF PAN-EUROPEANISM, AND PURSUIT OF A POLICY OF ECONOMIC DETENTE, BOTH MULTILATERALLY AND BILATERALLY, POSSIBLY SEEKING TO USE THE CONCLUSIONS OF THE CSCE IN THIS CONNECTION.

19. THE SOVIET ATTITUDE MIGHT ALSO TAKE A DIFFERENT FORM WHERE AN ORGANIZATION WAS SUBJECT TO ADAPTATION TO MEET MORE CLOSELY SOVIET PURPOSES. IN THE CSCE, FOR EXAMPLE, THE SOVIET UNION HAD SHOWN SIGNS OF READINESS TO SEE A MAJOR ROLE IN "FOLLOW UP" GIVEN TO THE ECE, WHICH WAS A BODY TO WHICH IT ALREADY BELONGED AND WHICH HAD A WEAK PROFILE LEAVE TO RESHAPING. THE SOVIET UNION MIGHT ALSO SEE ANOTHER CONFERENCE, OR SERIES OF CONFERENCES FOLLOWING THE CSCE AS PROVIDING IT WITH A MULTILATERAL ECONOMIC FORUM. THUS A SOVIET AIM IN THE CURRENT DEBATE UNDER ITEM 2 OF THE CSCE AGENDA HAD APPEARED TO BE THE ESTABLISHMENT, IN A MULTILATERAL CONTEXT, OF ECONOMIC PRINCIPLES TO BE APPLIED SUBSEQUENTLY IN ITS BILATERAL ECONOMIC RELATIONS.

20. THE OTHER EAST EUROPEAN COUNTRIES HAD PARTICIPATED IN SOME MULTILATERAL ECONOMIC BODIES, AND MIGHT BE EXPECTED TO USE THESE BODIES AS FORA IN WHICH TO DEMONSTRATE SOME INDEPENDENCE OF THE SOVIET UNION. THEIR REAL CAPACITY IN THIS RESPECT WAS, HOWEVER, LIKELY TO BE VERY LIMITED.

21. WESTERN INTERESTS: IN CONSIDERING THE QUESTION OF SOVIET PARTICIPATION, THE DILEMMA FOR THE WEST LAY BETWEEN ON THE ONE HAND, THE DESIRABILITY OF ENCOURAGING GREATER RESPONSIBILITY ON THE PART OF THE SOVIET UNION AND IN CERTAIN CASES THE PRACTICAL ADVANTAGES OF SOVIET PARTICIPATION, AND ON THE OTHER HAND, THE POSSIBLE THREAT OF DISRUPTION TO THE ORGANIZATIONS IN

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QUESTION POSED BY SOVIET PARTICIPATION. THE ONLY PRACTICAL COURSE APPEARS TO BE TO ADOPT A CASE BY CASE APPROACH. THUS IN SOME CASES, SUCH AS INVOLVING THE SOVIETS IN THE SOLUTION OF GLOBAL FOOD PROBLEMS, THE ADVANTAGES APPEARED TO OUTWEIGH BY FAR THE OBJECTIONS. HOWEVER, PAST EXPERIENCE IN THIS AREA HAD BEEN DISCOURAGING. ON THE OTHER HAND, IN OTHER CASES, WESTERN INTERESTS MIGHT BEST BE SERVED BY NOT ENCOURAGING SOVIET PARTICIPATION. SUCH A CASE BY CASE APPROACH SHOULD BE BASED PRIMARILY ON CONSIDERATIONS OF SUBJECT MATTER RATHER THAN OF ORGANIZATIONS AS SUCH. IN DECIDING, IN ANY PARTICULAR CASE, WHETHER TO ENCOURAGE SOVIET PARTICIPATION, THERE WERE VARIOUS RELEVANT CRITERIA TO BE KEPT IN MIND, SUCH AS THE EXTENT OF EAST/WEST COMMUNITY OF INTEREST, INDICATIONS OF SOVIET READINESS TO ACCEPT THE DISCIPLINES OF THE ORGANIZATION INVOLVED AND TO CO-OPERATE IN A CONSTRUCTIVE MANNER IN THE OVERALL WORK. THE POLITICAL DIFFICULTIES OF POSITIVELY SEEKING TO DISCOURAGE OR TO PREVENT SOVIET PARTICIPATION IN ANY PARTICULAR ORGANIZATION WERE CLEAR. HOWEVER, SINCE THE SOVIET UNION DID NOT APPEAR TO BE LIKELY TO BE SEEKING WIDER PARTICIPATION IN THE NEAR FUTURE, THE PROBLEM WAS NOT AN IMMEDIATE ONE. MEANWHILE, WE SHOULD CONTINUE OUR OWN EFFORTS TO IMPROVE AND ADAPT INTERNATIONAL ECONOMIC SYSTEMS AND STRUCTURES SO AS BEST TO MEET OUR OWN WESTERN NEEDS. THIS WORK SHOULD NOT BE DELAYED BY EAST/WEST CONSIDERATIONS.

22. THE GROUP NOTED THE CONTINUING EFFORTS OF THE EEC COUNTRIES TO ESTABLISH A COMMON POSITION IN TRADE WITH THE SOVIET UNION AND THE OTHER COUNTRIES OF EASTERN EUROPE. WITH REGARD TO RELATIONS WITH COMECON, THE QUESTION WAS RAISED WHETHER EEC NEGOTIATIONS WITH COMECON COULD RESULT, AS THE SOVIETS WISHED, IN STRENGTHENING THE LATTER, AND INDIRECTLY IN REINFORCING SOVIET CONTROL OF EASTERN EUROPE. STRESS WAS LAID ON THE NEED TO KEEP OPEN TO THE EASTERN EUROPEAN COUNTRIES OUTSIDE THE SOVIET UNION THE POSSIBILITY OF BILATERAL EXCHANGES WITH THE WEST. THERE WERE, HOWEVER, GREAT DIFFICULTIES AT A TIME WHEN THE MAJORITY OF EASTERN EUROPEAN COUNTRIES WERE FACED WITH SERIOUS ECONOMIC PROBLEMS, AND, IN PARTICULAR, WERE ALREADY UNDER A VERY HEAVY BURDEN OF FOREIGN DEBT. NONETHELESS, IT WAS IMPORTANT THAT THEY SHOULD NOT FEEL THAT THE WEST WAS ABANDONING THEM.

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